

# Statewide Issues

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## Augmentation for Employee Compensation

<b>2004-05</b>	<b>No Change</b>
<b>2005-06</b>	<b>–\$36.2 million (\$18.0 million all funds)</b>

The Governor's Budget includes funding for salary increases required under current contract obligations for a number of bargaining units, including highway patrol, correctional peace officers, firefighters, engineers, crafts and maintenance, and psychiatric technicians. An increase of \$63.6 million (\$2.5 million General Fund) is included for Bargaining Unit 9 (Engineers) as required by the salary parity provisions in their contract. An increase of \$11.5 million (\$3.8 million General Fund) for Bargaining Unit 12 (Crafts and Trades) will increase the state's contributions for health care as a result of an arbitration settlement that, if not resolved, would have resulted in significant increases in expenditures for the Department of Corrections.

A savings of \$13.6 million from the Motor Vehicle Account is a result of a lower than estimated salary increase for Bargaining Unit 5 (Highway Patrol) based on the results of the annual highway patrol salary survey. Because the contract for Unit 6 is tied to the adjustments for Unit 5, there will be an associated reduction of \$44.7 million General Fund in the amount required for the contract.

The Administration is continuing to bargain with the exclusive representatives of the 13 collective bargaining units whose contracts have already expired or will expire in July 2005. The Administration is willing and prepared to engage in meaningful negotiations with the goal of achieving the areas of reform identified in the Governor's Budget, while recognizing that this is a bilateral process. It is the Administration's desire that these negotiations be completed in time to include any costs and savings in the 2005-06 final Budget.

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## Health and Dental Benefits for Annuitants

<b>2004-05</b>	<b>\$8.4 million</b>
<b>2005-06</b>	<b>\$34.5 million</b>

Current year enrollments are higher than estimated in the Governor's Budget. An increase of \$8.4 million is required to fund fully the costs of health care contributions for retirees.

The Governor's Budget proposed a reduction of \$34.5 million from this appropriation for 2005-06 in anticipation of savings in pharmaceutical costs resulting from the Medicare Modernization Act. It has since been determined that the savings will not accrue during the 2005-06 fiscal year. The savings will be in the form of reimbursements from the federal government that will not be received before September 2006. While the Medicare Modernization will provide savings in the future, those savings will not reduce the state's costs for annuitants' health care during 2005-06.

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### **Rural Health Care Equity Program**

<b>2004-05</b>	<b>No Change</b>
<b>2005-06</b>	<b>\$1.1 million</b>

An increase of \$1.1 million is provided to meet increased enrollments and an increase on the Medicare Part B premiums for retirees. The unexpended balances from prior year appropriations for the Rural Health Care Equity Program Administration totaling \$15.3 million will revert to the General Fund on June 30, 2005. The Administration proposes to appropriate, without regard to fiscal year, that amount to satisfy the state's continuing obligation to this program. Based on historical data, no new expenditures are expected from this new appropriation, but if there is a need for such expenditures in the future, there will be an appropriation to which they can be charged.

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### **Section 3.60 CalPERS Rate Adjustments**

<b>2004-05</b>	<b>No Change</b>
<b>2005-06</b>	<b>-\$152.7 million (-\$251.5 million all funds)</b>

On April 19, 2005, the Board of Directors for the California Public Employees' Retirement System (CalPERS) adopted a new policy for calculating the actuarial value of assets, spreading market value asset gains and losses over 15 years as opposed to the current 3 years; and changing the corridor limits for the actuarial value of assets from 90 percent–110 percent of market value to 80 percent–120 percent of market value. The effect of this new policy will be to reduce the state's 2005-06 contributions to CalPERS by \$152.7 million (\$251.5 million all funds). This change does not reflect any differences that would be caused by the Governor's policy proposals in this area.

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### **Strategic Sourcing**

<b>2004-05</b>	<b>-\$48 million</b>
<b>2005-06</b>	<b>-\$96 million</b>

The May Revision proposes to eliminate the target savings set aside for the California Strategic Sourcing Initiative and amend Control Section 33.50 to allow the Department of Finance periodically to reduce departmental appropriations when actual savings data become available. While we continue

to believe this effort will result in substantial savings to the state over the long term, implementation delays and data collection difficulties in the current year have resulted in the inability to estimate savings accurately by department. The Department of General Services estimates current year savings of \$4.9 million and 2005-06 savings of \$46.8 million from all funds. In order to ensure that the state Budget does not depend on savings that cannot be estimated with reasonable accuracy, the May Revision proposes to revise Control Section 33.50 to allow actual savings to be captured on a periodic basis.

### **2005-06 State Appropriations Limit Calculation**

Pursuant to Article XIII B of the California Constitution, the 2005-06 State Appropriations Limit (SAL) is estimated to be \$68.890 billion. The revised limit is the result of applying the growth factor of 6.64 percent. The revised 2005-06 limit is \$411 million above the \$68.479 billion estimated in January. This increase is due to changes in the following factors:

	<b>January Percentage Growth</b>	<b>May Revision Percentage Growth</b>
Per Capita Personal Income	4.50	5.26
State Civilian Population	1.65	1.50
K-14 Average Daily Attendance	1.15	1.05

For SAL purposes, per capita personal income is defined as calendar fourth quarter California personal income, as estimated by the US Bureau of Economic Analysis (BEA), divided by California civilian population, estimated by the California Department of Finance. Since BEA does not release its civilian population estimate until April, the Department of Finance uses its own estimate for the Governor's January Budget. The May Revision reflects the BEA's estimate.

The SAL for 2004-05 does not change since it was statutorily established by Control Section 12.00 of the 2004 Budget Act.

### **Boards and Commissions**

As part of its continued effort to streamline state government, the Administration proposes to eliminate 13 of the state's boards and commissions. The 13 boards and commissions proposed to be eliminated are as follows:

1. Advisory Committee on Managed Health Care
2. Agriculture Bargaining Association Advisory Board
3. Child Development Policy and Advisory Committee
4. Clinical Advisory Panel
5. Commission of the Californias (Office of California-Mexico Affairs)

## Expenditures: **Statewide Issues**

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6. Credit Union Advisory Committee
7. Departmental Transportation Advisory Committee
8. Heritage Preservation Commission
9. Interagency Aquatic Invasive Species Council
10. Mexican-American Memorial Beautification and Enhancement Commission
11. Mortgage Bankers Advisory Committee
12. Real Estate Advisory Commission
13. Small Business Reform Task Force